AKITA DRILLING LTD.

2009 **ANNUAL REPORT**

Forward-looking Statements

From time to time Akita Drilling Ltd. ("AKITA" or the "Company") makes written and verbal forward-looking statements. These forward-looking statements include but are not limited to comments with respect to our objectives and strategies, financial condition, the results of our operations and our business, our outlook for our industry and our risk management discussion. Forward looking statements are typically identified with words such as "believe", "expect", "forecast", "anticipate", "intend", "estimate", "plan" and "project" and similar expressions of future or conditional events such as "will", "may", "should", "could" or "would".

By their nature these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not be achieved. We caution readers of this Annual Report not to place undue reliance on these forward-looking statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements may be influenced by the following factors: the level of exploration and development activity carried on by AKITA's customers, world oil and North American natural gas prices, weather, access to capital markets and government policies. We caution that the foregoing list of important factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors as well as other uncertainties and events.

Additional information about these and other factors can be found under the "Business Risks and Risk Management" section of the Management's Discussion and Analysis of this 2009 Annual Report for AKITA.

Contents

Annual Meeting

The Annual General Meeting of Shareholders will be held at 10:00 a.m. M.D.T. on Tuesday May 11, 2010 at the Westin Hotel, 320 - 4th Avenue S.W., Calgary, Alberta. Shareholders and other interested parties are encouraged to attend.

Corporate Profile

AKITA Drilling Ltd. is a premier oil and gas drilling contractor with drilling operations throughout Western Canada, New Brunswick, Quebec, Canada's Northern Territories, Alaska and Colorado. The Company strives to be the industry leader in customer relations, employee expertise, safety, equipment quality and drilling performance. In addition to conventional drilling, the Company specializes in purpose-built arctic and pad drilling rigs and is active in directional, horizontal and underbalanced drilling providing specialized drilling services to a broad range of independent and multinational oil and gas companies. AKITA currently employs, at full operations, approximately 750 people. The Company has ownership in 39 drilling rigs in all depth ranges.

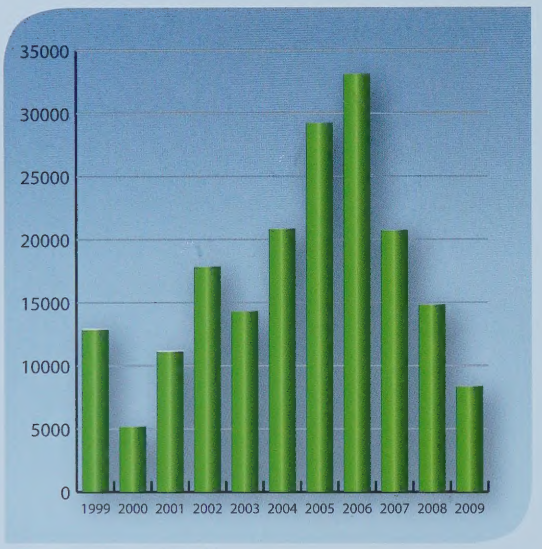
Operational Performance

Weak drilling activity, primarily for conventional rigs, had an adverse impact on the Company's earnings for the third consecutive year. Even in this cyclical industry, AKITA has achieved positive earnings in each quarter of its 17 year history.

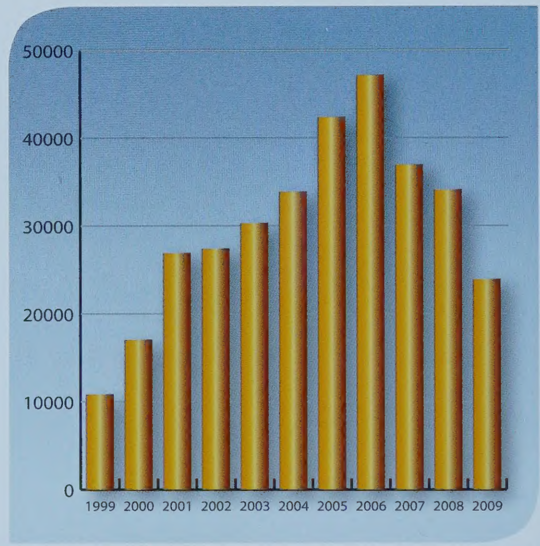
Funds flow from operations also declined, primarily due to weaker earnings. However, funds flow from operations was more than sufficient to meet the capital expenditure needs of the Company and fund the quarterly dividend program.

AKITA continues to maintain a strong liquidity position as demonstrated by having $69,819,000 in working capital despite weak market conditions for oil and gas drilling. This record year-end balance gives great flexibility to the Company for managing its financial affairs.

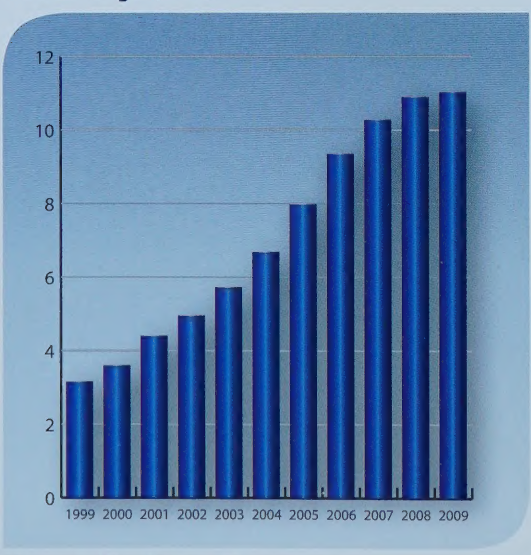
Equity per share grew 1.2% on a one year basis, and 10.5% compounded over the past ten years.



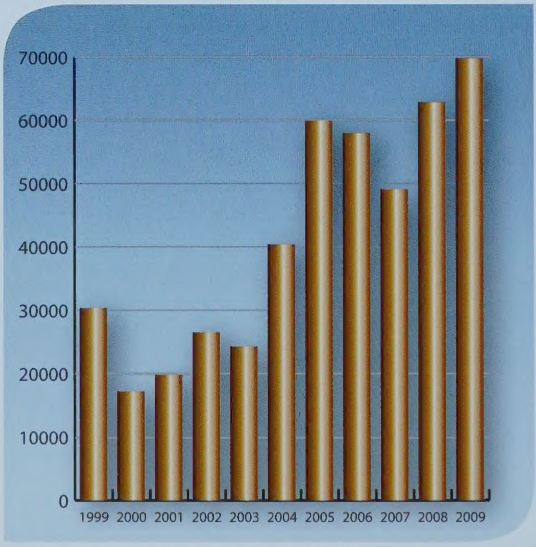
Net Earnings (000's)



Funds Flow from Continuing Operations (000's)



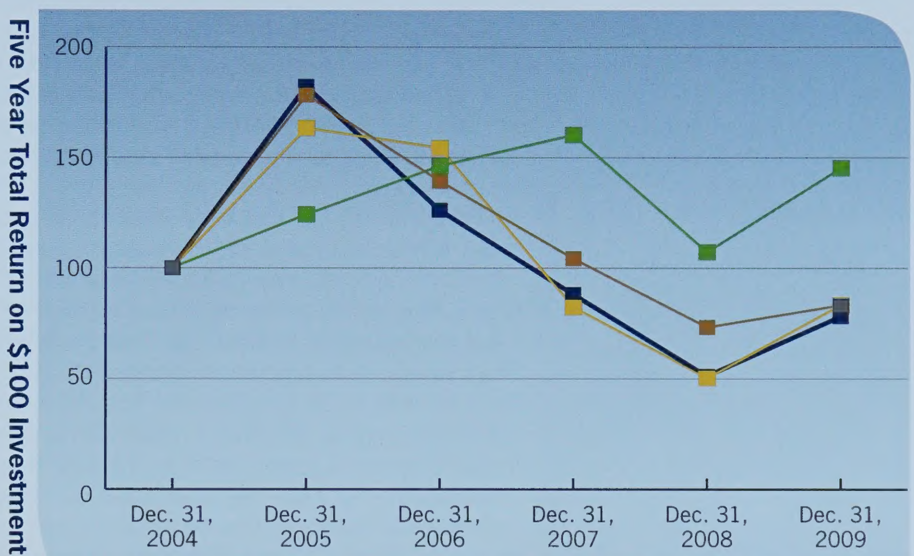
Year-end Equity per Share ($)



Year-end Working Capital (000's)

Share Performance

The graph to the right compares the cumulative return over the last five years on the Class A Non-Voting shares and Class B Common shares of the Company from December 31, 2004 with the cumulative total return of the S&P/TSX Composite Stock Index and the TSX Oil & Gas Drilling Sub-Index over the same period, assuming reinvestment of dividends.



AKITA Class A	100	182	126	88	51	**78**
AKITA Class B	100	163	154	82	50	**83**
S&P/TSX Composite Index	100	124	146	160	107	**145**
TSX Oil & Gas Drilling Sub-Index	100	178	139	104	73	**83**

Share Performance

All references to weighted average number of Class A Non-Voting and Class B Common shares outstanding, shares traded, prices per share and dividends per share have been retroactively restated to reflect the Company's two-for-one share split implemented on June 8, 2005.

		2005	2006	2007	2008	**2009**
Weighted average number of Class A and Class B shares		18,591,334	18,491,237	18,275,846	18,255,099	**18,230,913**
Market prices for Class A Shares	High	$ 24.20	$ 26.35	$ 18.90	$ 17.50	**$ 12.44**
	Low	$ 13.18	$ 16.20	$ 9.51	$ 5.70	**$ 5.25**
	Close	$ 24.20	$ 16.65	$ 11.39	$ 6.35	**$ 9.50**
Volume		4,053,605	4,522,599	4,377,762	2,553,765	**2,170,740**
Market prices for Class B Shares	High	$ 29.00	$ 28.52	$ 21.50	$ 18.20	**$ 12.25**
	Low	$ 14.75	$ 21.50	$ 11.01	$ 6.65	**$ 6.25**
	Close	$ 23.00	$ 21.50	$ 11.25	$ 6.65	**$ 10.76**
Volume		12,854	13,362	13,135	7,051	**14,049**

Dividend History

AKITA began paying dividends to shareholders in 1996. It is the current intention of the Board of Directors to continue to pay quarterly dividends in the future. Nevertheless, the payment of any dividend is at the discretion of the Board of Directors and depends upon the financial condition of the Company and other factors.

	2005	2006	2007	2008	**2009**
Dividends paid per share ($)	0.225	0.24	0.28	0.28	**0.28**

Letter to the Shareowners

Linda A. Heathcott
Chairman of the Board

Karl Ruud
Chief Executive Officer

The economic recession that gripped much of the world during 2009, including North America, had a negative impact on the financial performance of AKITA. Demand for crude oil and natural gas declined compared to 2008, which created a drop in the demand for AKITA's rigs.

Earnings for the year ended December 31, 2009 were $8,380,000 or $0.46 per share on revenue of $106,263,000. Comparative figures for 2008 were $14,847,000 or $0.81 per share on revenue of $137,246,000. Funds flow from continuing operations for the current year was $23,960,000 as compared to $34,149,000 in 2008 while cash flow from operations for 2009 was $29,235,000 as compared to $19,367,000 in 2008.

The Company's rig utilization in 2009 was 31.1% and once again compared favourably to the industry average of 24.6%, but fell short of AKITA's 2008 utilization of 42.2%. This represented the lowest annual utilization rate achieved by AKITA since its inception in 1993. AKITA's conventional rigs, averaged 23.7% utilization. Pad rigs fared better, averaging 59.5% utilization.

AKITA currently has eight rigs with pad moving capabilities which are actively drilling for both heavy oil in northeast Alberta and natural gas in shale formations. Two of AKITA's rigs were retro-fitted into pad rigs from conventional configurations during 2008 and 2009. Demand remained steady throughout the year for pad rigs to drill either heavy oil (five rigs) or natural gas, particularly in shale bearing formations (three rigs).

The balance of AKITA's 39 rigs are moved between locations with trucks. Although a number of AKITA's rigs drill a high proportion of both crude oil and natural gas wells, a significant portion of AKITA's fleet have capacities (either shallow or deep) that are most typically suited to drilling predominantly natural gas targets. Although demand existed for drilling natural gas in shale formations, there were fewer drilling opportunities in more conventional locations. The Company was able to source opportunities for four of its conventional rigs to drill for potash resources in Saskatchewan rather than be used in oil and gas drilling.

The Company maintains significant financial strength, which has placed AKITA in a strong position to weather the current market conditions. At December 31, 2009 the Company had $69.9 Million in working capital ($3.83 per share) including $34.1 Million in cash and cash equivalents ($1.87 per share), $18.0 Million in term deposits ($0.99 per share) and no long-term debt. As well, the carrying value for the Company's fleet was only $142.2 Million ($3.7 Million per rig). Although an evaluation of replacement cost for AKITA's fleet has not been performed, management is confident that the cost to replace the Company's fleet is significantly higher than its carrying value.

AKITA is strongly committed to the ongoing safety of its employees and continually achieves one of the safest working records in the Canadian drilling industry. Unfortunately, in 2009 AKITA's number of safety related incidents was higher than the record low achieved in 2008. The Company has taken measures to ensure that its comprehensive safety plan is fully endorsed through specific actions and commitment at every level.

On July 1, 2009, following the retirement of John Hlavka as Chief Executive Officer, the Board of Directors appointed Karl Ruud as President and Chief Executive Officer of the Company. Mr. Ruud had previously served the Company in the role of President and Chief Operating Officer and, like his predecessor, has extensive experience both in Canada and internationally, and has been with AKITA since the formation of the Company. Mr. Ruud has a broad range of experience in all aspects of the Company' s business.

On October 20, 2009, the Canadian Association of Oilwell Drilling Contractors provided its industry drilling forecast for 2010 estimating the drilling of 8,523 wells, compared to 8,360 wells drilled in 2009. The current year estimate was based upon commodity price assumptions of US $70 per barrel for crude oil and CAD $5.50 per mcf for natural gas. Although the price of crude oil has, at times, been nearly 10% above this forecasted price, the commodity price for natural gas has been approximately 10% below the forecast target. Management remains cautious in predicting that AKITA's 2010 drilling activity will be significantly greater than 2009 levels given the current commodity price structure.

The drilling market continues to demonstrate a clear dichotomy with respect to the market for conventional rigs and the market for pad rigs. The overall short-term prognosis for conventional rigs is for continued weakness unless commodity prices for crude oil and, more significantly, natural gas increase in a sustained fashion. One bright spot in the conventional rig market that occurred in 2009 and appears to provide opportunities in 2010 relates to the market for drilling potash. This work has had a positive impact on AKITA's double sized rigs in Saskatchewan.

The Company has received several inquiries regarding the availability of pad rigs for longer term work. Should a number of these opportunities materialize, AKITA's financial performance could improve materially. Management sees this as being the most productive opportunity to expand AKITA's position in the market and is reviewing prospects in a number of geographic settings.

It is with a great deal of sadness that we advise of the recent death of John Hlavka. John faithfully served the Company with his vision, humility and integrity, leading it from its origins in the 1970's, through its transition into a public company in 1993 and thereafter through its growth and until his retirement as Chief Executive Officer in June of 2009. John's leadership charted the course for the Company. His wisdom, determination and spirit will be missed by all.

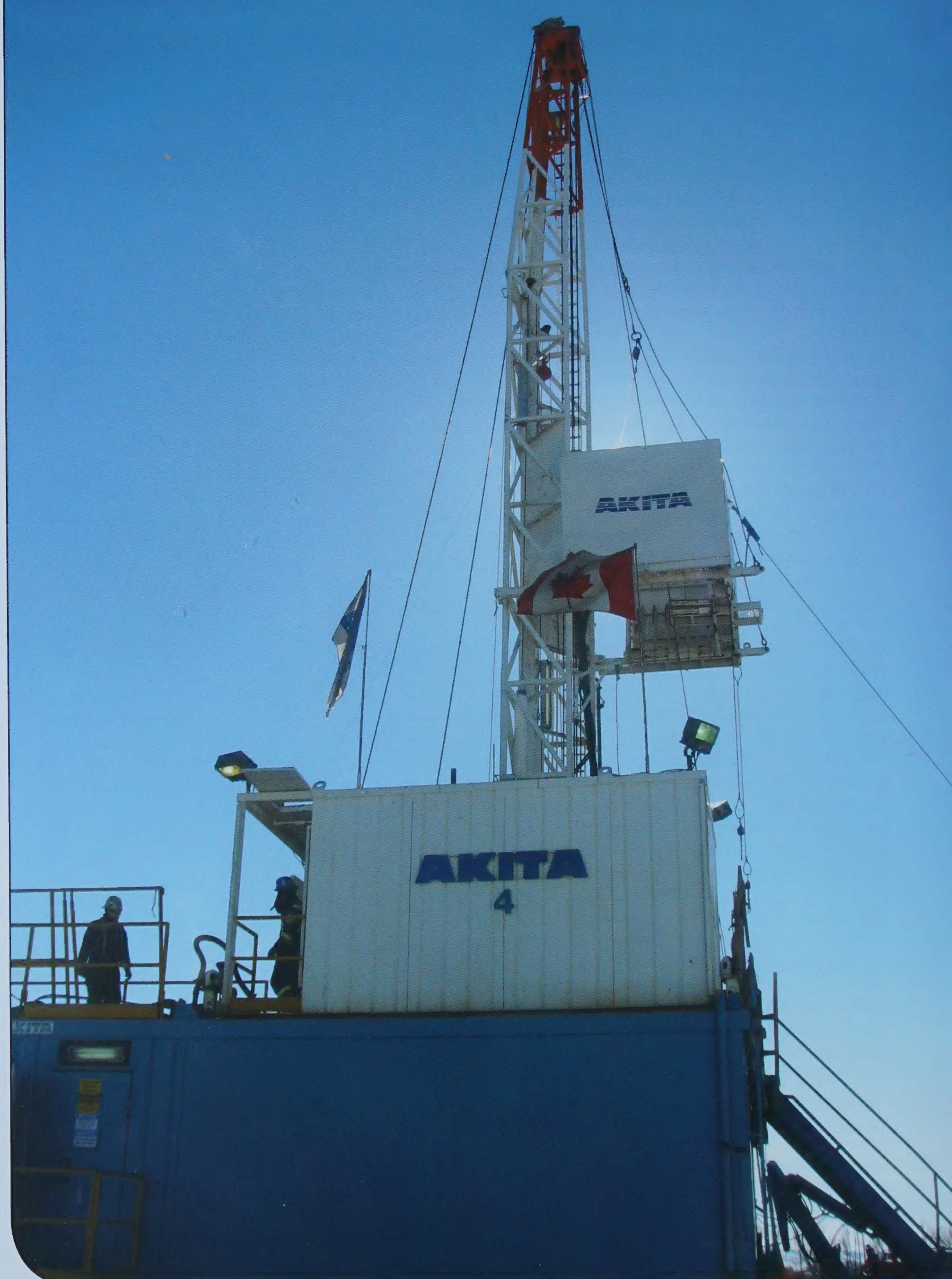
We were also saddened by the death last year of an outstanding employee and friend, Lou Klaver. A mechanical engineer by profession and Vice-President, Engineering for the Company, Lou's technical expertise, hard work and dedication earned him great respect from his co-workers and clients. Lou was highly involved in the development of AKITA's latest generation of pad drilling rigs.

We would like to express our appreciation for the support of our shareholders in these difficult market conditions. The Company also appreciates the continuing support of its customers as well as the reliability of its many suppliers. To these groups we express our sincere thanks. Of course, much of the credit for AKITA 's success lies with our dedicated employees, whose hard work is reflected in the industry leading performance achieved. Finally, we wish to acknowledge the contribution of our directors whose wise counsel and guidance have helped to create and maintain a strong and successful Company.

On behalf of the Board of Directors,

Linda A. Heathcott
Chairman of the Board
March 24, 2010

Karl A. Ruud
President and Chief Executive Officer


AKITA
AKITA
4

Management's Discussion & Analysis

The following sets out management's analysis of the consolidated financial position, consolidated cash flows and consolidated results of operations for AKITA Drilling Ltd. and its subsidiaries (collectively referred to as "AKITA" or "the Company") for the years ended December 31, 2009 and 2008. The information included in this MD&A is intended to assist readers in analyzing the financial affairs of the Company. In addition to the information in this section, AKITA's audited financial statements for 2009 and 2008, including the notes thereto, found on pages 32 to 44, provide information on the Company's financial position, cash flows and results of its operations. The information in this MD&A was approved by AKITA's Board of Directors on March 24, 2010 and incorporates all relevant considerations to that date. All amounts are reported in Canadian dollars.

Introduction

AKITA is a premier oil and gas drilling contractor with drilling operations throughout Western Canada, Canada's Northern Territories, Quebec and Alaska. During 2009, the Company also operated one drilling rig in New Brunswick and one drilling rig in Colorado. The Company strives to be the industry leader in matters of customer relations, employee expertise, safety, equipment quality and drilling performance. In addition to conventional drilling, the Company specializes in purpose-built arctic and pad drilling rigs and is active in directional, horizontal and underbalanced drilling, providing specialized drilling services to a broad range of independent and multinational oil and gas companies. Of the Company's 39 rigs, 36 were located in Western Canada at December 31, 2009, representing just over 4% of the Western Canadian industry drilling fleet.

AKITA has focused much of its growth strategy on the construction of new rigs, or reconstruction of existing rigs based on specific customer demands that are also tied to long-term contracts. This strategy was employed in the early part of the decade to secure a dominant drilling position in Canada's northern territories and is also currently being utilized to enhance the Company's development of pad rigs, both for heavy oil and for natural gas located in shale formations. In 2009, the Company completed the reconstruction of two deep capacity conventional rigs into deep capacity pad rigs. Both are working under long-term contracts in British Columbia.

The Company had no discontinued operations in 2009. During the comparative year of 2008, the Company sold one drilling rig (0.55 net to AKITA), which represented substantially all of the assets of the Akita Sahcho and Akita Kaska Joint Ventures. As well, during 2008, the Company sold its well servicing business which included three well servicing rigs (1.5 net to AKITA) representing substantially all of the assets for the Western Oilfield Servicing Joint Venture. Proceeds from these sales totalled $8,150,000 ($3,510,000 net to AKITA) and resulted in an after-tax gain of $1,941,000 to the Company in 2008.

General Overview

Demand for AKITA's drilling services in 2009 lagged 2008 levels. This reduction was influenced by lower global demand for crude oil and natural gas and weakened credit access for some of the Company's customers, who were affected by both the financial crisis and the ensuing global recession. Reduced credit access also had an effect on the willingness of the Company to grant credit, further limiting AKITA's target market.

Another factor that impacted the demand for AKITA's conventional drilling services was the development of major shale natural gas resources, primarily in the United States. Demand for unconventional drilling

services, which typically involves drilling for heavy oil or natural gas located in shale formations (sometimes referred to as "shale gas") using pad drilling rigs fared much better than demand for conventional rigs drilling for crude oil or natural gas. AKITA has eight pad rigs in its fleet of 39 rigs which are suited to drilling unconventional wells.

Revenue and Operating & Maintenance Expenses

$Million	2009	2008	Change	% Change
Revenue	**106.3**	137.2	(30.9)	(23%)
Operating & Maintenance Expenses	**67.6**	87.1	(19.5)	(22%)

Revenue decreased to $106,263,000 in 2009 from $137,246,000 in 2008 as a result of the continuation of weak market conditions in the drilling sector. Although overall revenue decreased, revenue per operating day increased to $23,869 during 2009 from $21,675 per operating day in 2008, mainly as a result of a change in the rig mix that emphasized rigs providing a greater range of services as well as the increased proportional impact from standby revenue. Operating and maintenance costs are tied to activity levels and amounted to $67,649,000 or $15,195 per operating day during 2009 compared to $87,123,000 or $13,759 per operating day for the prior year. This increase in operating and maintenance costs was also impacted by the change in rig mix and the increased range of services provided. As a consequence of having a greater increase in the revenue earned per day compared to the increase in operating and maintenance expense per day, the overall profit margin (the difference between revenue per day and operating and maintenance costs per day) increased to $8,673 per day (2008 - $7,916 per day). Nevertheless, the positive impact of higher margins was more than offset by reduced activity levels.

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. Work in progress on daywork contracts is measured based upon the passage of time in accordance with the terms of the contracts. Daywork contracts represented 100% of all revenue generated in 2009 (2008 – 100%). All contracts being performed at the year-end dates of December 31, 2009 and December 31, 2008 were performed on a daywork basis. No significant losses were anticipated at either of these year-end dates and accordingly no provision for material losses has been made.

As a result of retiring two older rigs during the fourth quarter, at December 31, 2009, AKITA had 37 drilling rigs under management in Canada (34.225 rigs net). In addition, the Company had a 50% interest in two drilling rigs in Alaska. Consequently, at December 31, 2009, AKITA's drilling rig fleet stood at 39 rigs (35.225 rigs net), two fewer than at the end of 2008 (2.0 fewer rigs net). AKITA provided drilling services to 30 customers in 2009 (2008 - 53 customers), including three customers that each provided more than 10% of AKITA's revenue for the year (2008 – one customer).

Depreciation Expense

$Million	2009	2008	Change	% Change
Depreciation Expense	**17.5**	16.7	0.8	5%

AKITA depreciates its drilling rigs using the unit of production method. Most of these drilling rigs are depreciated based on an estimated service life of 2,000 operating days per drilling rig, although the Company records depreciation on five of its deep drilling rigs over an estimated service life of 3,600 operating days per drilling rig. Unlike other drilling rigs in AKITA's fleet, in particular those that were already owned by AKITA when it became a public company in 1993, the drilling rigs depreciated over 3,600 operating days were newly constructed and are subject to fewer moves than the smaller sized drilling rigs in AKITA's fleet. The increase in depreciation expense to $17,476,000 during 2009, from

$16,667,000 during 2008 was mostly attributable to the higher average cost base of AKITA's rigs due to the addition of new rigs as well as a significant decrease in work for the Company's older, less capital intensive rigs. Management assesses the estimated remaining life of its rigs annually. Assets other than drilling rigs are depreciated over their estimated remaining lives using a straight line or declining balance basis of calculation. Drilling rig depreciation accounted for 77% of total depreciation expense in 2009 (2008 – 72%).

Selling and Administrative Expenses

$Million	**2009**	2008	Change	% Change
Selling and Administrative Expense (total expense)	**9.9**	16.3	(6.4)	(39%)
Selling and Administrative Expense (excluding non-recurring items)	**12.8**	15.3	(2.5)	(16%)

During 2009, the Company recorded non-recurring reductions of $2,819,000 against its pension liability as a result of updated actuarial reports. Comparatively, a non-recurring item occurred during 2008 when the Company cancelled 229,000 stock options resulting in a one-time non-cash increase of $1,000,000 in selling and administrative expense and a corresponding increase in contributed surplus. As required by Canadian Generally Accepted Accounting Principles (GAAP), this was an accelerated expense of $1,000,000 for the remaining unrecognized value of the cancelled stock options and was reflected in the year in which it occurred rather than over the remaining term of the options. In addition to these non-recurring items, the Company has scaled down the size and costs associated with its administrative staff.

Selling and Administrative Expenses decreased to $9,942,000 in 2009 from $16,336,000 in 2008. Selling and Administrative Expenses equated to 9.4% of total revenue in 2009, compared to 11.9% of total revenue in 2008. After adjusting for the non-recurring items described in the preceding paragraph, Selling and Administrative Expenses were 12.0% of total revenue in 2009 compared to 11.2% of total revenue in 2008 largely as a result of decreased revenue in the current year.

The single largest component of Selling and Administrative Expenses was salaries and benefits which accounted for 46% of these expenses (57% in 2008). After giving consideration to the non-recurring adjustments, 2009 salaries and benefits accounted for 58% of Selling and Administrative Expense (61% in 2008).

Other Income (Expense)

$Million	**2009**	2008	Change	% Change
Interest Income	**0.5**	1.8	(1.3)	(72%)
Gain on Sale of Joint Venture Interests in Rigs and Other Assets	**0.4**	0.7	(0.3)	(43%)
Gain (Loss) on Foreign Currency Translation	**(0.2)**	0.5	(0.7)	(140%)
Other Income	**0.7**	3.0	(2.3)	(77%)

The Company invests any cash balances in excess of its ongoing operating requirements in bank guaranteed highly liquid investments. Interest income decreased to $524,000 in 2009, compared to $1,814,000 in 2008 as a result of a significant reduction in short-term interest rates.

The gain on sale of joint venture interests in rigs and other assets totalled $396,000 in 2009 compared to $673,000 in the previous year. The 2008 results included the sale of a camp to a third party. No comparable transaction occurred in 2009.

As a result of the appreciation of the Canadian dollar vis-à-vis the United States dollar during 2009, the Company recorded a loss from foreign currency translation of $215,000 from its Alaska and Colorado operations compared to a gain of $526,000 in 2008. In 2009, an additional pre-tax negative foreign currency adjustment of $556,000 was recorded through other comprehensive income in accordance with the Company's accounting policy. No adjustments were made to other comprehensive income in 2008.

Income Tax Expense

$Million	2009	2008	Change	% Change
Current Tax	**2.1**	3.4	(1.3)	(38%)
Future Tax	**1.4**	3.8	(2.4)	(63%)
Total Income Tax Expense	**3.5**	7.2	(3.7)	(52%)

The Company records income taxes using the liability method, thereby recording future income taxes based upon the differences between the financial reporting and income tax bases of assets and liabilities measured using tax rates that are substantively enacted to be in effect when the differences are expected to reverse. Total income tax expense decreased to $3,521,000 in 2009 from $7,147,000 in 2008. Overall income tax expense decreased primarily due to lower pre-tax earnings. In addition, current tax rates increased somewhat due to having a larger portion of pre-tax income being generated in higher tax rate jurisdictions. At the same time, future tax rates declined as a result of anticipated future rate reductions. In addition to the income taxes recorded in the consolidated statements of earnings, the Company recorded a recovery of future income taxes of $202,000 through other comprehensive income in respect of foreign exchange.

Discontinued Operations

$Million	2009	2008	Change	% Change
Gains on Disposals	**0.0**	1.9	(1.9)	N/A
Discontinued Operations	**0.0**	(0.1)	0.1	N/A

The Company had no discontinued operations in 2009. In May, 2008, the Company sold one drilling rig (0.55 net to AKITA), which represented substantially all of the assets for the Akita Sahcho and Akita Kaska Joint Ventures. In June, 2008, the Company sold its well servicing business which included three well servicing rigs (1.5 net to AKITA), which represented substantially all of the assets for the Western Oilfield Servicing Joint Venture. Proceeds from these sales totalled $8,150,000 ($3,510,000 net to AKITA) and resulted in an after tax gain of $1,941,000 to the Company in 2008.

In both of the above noted disposals, the assets sold were considered "non-core" and "underperforming".

Net Earnings and Cash Flow

$Million	2009	2008	Change	% Change
Net Earnings	**8.4**	14.8	(6.4)	(43%)
Funds Flow From Continuing Operations	**24.0**	34.1	(10.1)	(30%)
Change in Non-Cash Working Capital	**5.3**	(14.8)	20.1	N/A
Cash Flow from Operations	**29.2**	19.4	9.8	50%

Net earnings decreased to $8,380,000 or $0.46 per Class A Non-Voting Share and Class B Common Share (basic and diluted) for 2009 from $14,847,000 or $0.81 per share (basic and diluted) in 2008. Funds flow (not a GAAP measurement – see next section "Non-GAAP Measure") from continuing operations decreased to $23,960,000 in 2009 from $34,149,000 in 2008. Cash flow from operations, which includes the cash impact of the operations of the Company but is also affected by the change in working capital, increased in 2009 to $29,235,000 compared to $19,367,000 in 2008.

Current year results were negatively affected primarily by weaker market conditions. Another significant factor that affected current year results involved non-recurring reductions to general and administrative expenses as a result of pension liability adjustments.

Comparative net earnings for 2008 were also subject to two significant non-recurring adjustments: a one time charge to selling and administrative expense related to the cancellation of stock options; and the sale of certain non-core assets that were classified as a gain on disposal of discontinued operations and discontinued operations. These factors had no effect on comparative funds flow and only a minimal effect on cash flow from operations for that year.

Non-GAAP Measure

Funds flow from continuing operations is not a recognized measure under generally accepted accounting principles (GAAP). AKITA's method of determining funds flow from continuing operations may differ from methods used by other companies and involves including operating cash flow before working capital changes. Management and certain investors may find funds flow from continuing operations to be a useful measurement to evaluate the Company's operating results at year-end and within each year since the seasonal nature of the business affects the comparability of non-cash working capital changes both between and within periods.

Earnings per Share

Basic earnings per share have been calculated on the basis of the weighted average number of Class A Non-Voting Shares and Class B Common Shares outstanding during the year. Diluted earnings per share have been calculated using the treasury stock method. Under the treasury stock method, the dilutive effect of outstanding stock options is included in the weighted average number of shares. Proceeds that would have been received on exercise of stock options are used to buy back shares at the weighted average market price experienced during the year. The weighted average number of shares is then reduced by the number of shares acquired.

Fleet and Utilization

Utilization rates are a key statistic for the drilling industry since they measure sales volume and influence pricing. During 2009, AKITA's utilization rate was 31.1%, which was 11.3 percentage points lower than the previous year and 6.3 percentage points higher than the 2009 industry average. This represented the weakest utilization rate in AKITA's 17 year history.

A significant shift in drilling has occurred in recent years, especially in 2009 with respect to the type of equipment preferred by AKITA's customers. Primarily, this shift was away from conventional rigs requiring trucks to relocate from well to well, towards the use of pad rigs with self-moving systems to move within a set of well locations. Moreover, pad rigs typically drill wells in "batches" whereby a series of well segments are drilled, followed by a second series and then a final series of segments. This style of drilling, rather than drilling each well from start to finish prior to moving, provides significant efficiency gains when used in the appropriate applications. The following table demonstrates the range of drilling capabilities for the Company's fleet:

Drilling Depth Capability at December 31, 2009

		Conventional Rigs		Pad Rigs	
		Number of Rigs	Percent Utilization	Number of Rigs	Percent Utilization
0 to 950 metres:	(Note 1)	5	5.7%	0	N/A
951 to 1850 metres:		7	16.9%	0	N/A
1851 to 2450 metres:		2	63.5%	1	31.9%
2451 to 3050 metres:		6	16.5%	4	62.9%
3051 to 6700 metres:	(Note 2)	11	32.9%	3	64.2%
Total		31	23.7%	8	59.5%

Note 1: The Company retired two rigs from this category during the year.

Note 2: The Company transferred two rigs from conventional to pad rigs during the year.

AKITA completed retrofits in 2009 of two of its heavy triple rigs into pad configurations for drilling unconventional natural gas wells. These rigs both commenced long-term contracts in 2009.

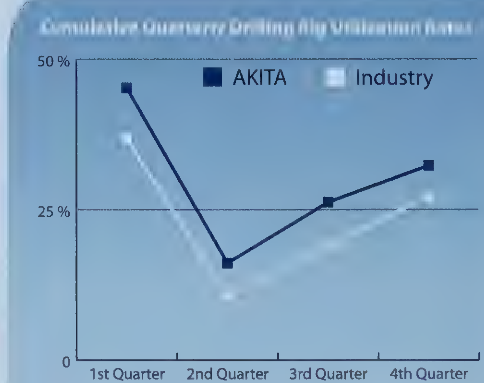
In addition to pad rigs, the number of rigs located in the North influences AKITA's utilization. This geographic sector is quite diverse but generally results in shorter drilling seasons than exist for southern locations. In some cases, AKITA receives standby revenue to help offset the higher amount of down-time involved in operating in Northern Canada and Alaska. During 2009, the Company had four or five rigs in either Canada's northern territories or in Alaska. The actual number of rigs located in these markets varied with the time of year.

From time to time, the Company enters into drilling contracts for extended terms. At December 31, 2009, AKITA had four rigs with multi-year contracts that extend into 2010 or beyond. Of these contracts, one is anticipated to expire in 2010, one in 2011 and the remaining two in 2013.

The following graph illustrates AKITA's 2009 drilling utilization rates compared to the industry average.

The drilling industry is seasonal, with activity building in the fall and peaking during the winter months as northern transportation routes become available, at which time areas with muskeg conditions freeze sufficiently to allow the movement of rigs and other heavy equipment. The peak drilling season ends with "spring break-up", at which time drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land.

In addition to traditional seasonal impacts, the business of AKITA could be affected in two important ways as a result of warmer than normal temperatures. First, increases in overall temperatures would have the effect of shortening the winter drilling season, especially in remote and northern locations. The most dramatic impacts of warmer than normal temperatures on the Company have been noted in Northern Canada, where



Note:
(1) Drilling utilization rates are average rates based upon the number of days in a year a rig is operating under contract, excluding move days.

Source: Canadian Association of Oilwell Drilling Contractors (CAODC)

the typical drilling season has shortened. As a result, it has been common for the Company to work with its customers and suppliers in regions such as the Mackenzie Delta, to locate certain key pieces of equipment in "staging areas" during the summer to reduce the overall winter moving distances. Another impact of warmer than normal temperatures on AKITA is related to a reduced demand for natural gas for heating. To the extent that this impacts the commodity price for natural gas, AKITA's customers might reduce natural gas drilling activity, which in turn, might reduce the demand for AKITA's services.

Competition in the Canadian drilling industry is affected by the overall size of the drilling fleet, and the level of customer demand. At December 31, 2009 there were 834 drilling rigs registered with the CAODC (December 31, 2008 – 865). AKITA's Canadian drilling fleet of 37 rigs (out of the total Company's fleet of 39 rigs) represented 4.4% of the total Canadian drilling fleet at December 31, 2009 (December 31, 2008 – 4.4%).

Changes in the level of operations have a corresponding impact on financial results. The following table shows the quarterly impact on AKITA's operations for the past three years:

	Three Months Ended				
(Dollars in thousands, except per share • Unaudited)	Mar. 31	June 30	Sept. 30	Dec. 31	Annual Totals
2009					
Revenue	**41,696**	**17,881**	**20,871**	**25,815**	**106,263**
Earnings from continuing operations	**3,908**	**555**	**752**	**3,165**	**8,380**
Earnings per share from continuing operations (basic and diluted) ($)	**0.21**	**0.03**	**0.04**	**0.18**	**0.46**
Net Earnings	**3,908**	**555**	**752**	**3,165**	**8,380**
Earnings per share (basic and diluted) ($)	**0.21**	**0.03**	**0.04**	**0.18**	**0.46**
Cash flow from operations	**11,258**	**12,519**	**4,924**	**534**	**29,235**
2008					
Revenue	48,126	20,278	33,747	35,095	137,246
Earnings (loss) from continuing operations	7,530	(246)	3,681	2,021	12,986
Earnings (loss) per share from continuing operations (basic and diluted) ($)	0.41	(0.01)	0.20	0.11	0.71
Net Earnings	7,647	1,498	3,681	2,021	14,847
Earnings per share (basic and diluted) ($)	0.42	0.08	0.20	0.11	0.81
Cash flow from operations	(1,325)	19,815	(6,342)	7,219	19,367
2007					
Revenue	52,170	27,315	29,804	32,673	141,962
Earnings from continuing operations	9,048	3,278	2,274	6,542	21,142
Earnings per share from continuing operations (basic) ($)	0.50	0.18	0.12	0.36	1.16
Earnings per share from continuing operations (diluted) ($)	0.50	0.17	0.12	0.36	1.15
Net Earnings	9,087	3,091	2,196	6,378	20,752
Basic Earnings per share ($)	0.50	0.17	0.12	0.35	1.14
Diluted Earnings per share ($)	0.50	0.16	0.12	0.35	1.13
Cash flow from operations	(11,120)	26,074	6,647	17,275	38,876

During the fourth quarter of 2009, rig activity for the Company included 1,182 operating days compared to 1,544 operating days during the corresponding period in 2008. Influenced by ongoing weak drilling activity levels, a change in the rig mix that emphasized rigs providing a greater range of services as well as the increased proportional impact from standby revenue; revenue rates equated to $21,840 per operating day in the fourth quarter of 2009 compared to $23,212 in the fourth quarter of 2008. Operating costs, which are also tied to activity levels, also declined to $14,127 per day compared to $16,473 in the corresponding quarter of 2008. Consequently, on a "per operating day" basis, the margin in the fourth quarter of 2009 was greater than in the corresponding quarter in 2008. However, this positive situation was more than offset by the impact of weaker utilization rates. During the fourth quarter of 2009, the Company recorded a one-time reduction of $1,208,000 as a result of the receipt of an updated actuarial report. Due to these factors, earnings and earnings per share were higher than during the fourth quarter of 2008. Less cash flow was generated in the fourth quarter of 2009 compared to the corresponding quarter in 2008 as a result of the effects of working capital changes.

Overall liquidity increased at December 31, 2009 compared to the corresponding 2008 year-end date by $6,730,000 as measured in terms of overall working capital. Year over year working capital increased primarily as a result of the lower overall level of capital expenditures during the year coupled with profitable operations. AKITA's cash balance decreased $8,026,000 on a year-over-year basis and was $34,142,000 at December 31, 2009 (December 31, 2008 - $42,168,000). The Company also held $18,000,000 in term deposits at December 31, 2009 (December 31, 2008 - $Nil).

The following table highlights AKITA's annual financial results for the last three years:

Three Year Summary (Dollars in thousands, except per share) (Unaudited)	**2009**	2008	2007
Revenue	**106,263**	137,246	141,962
Net Earnings	**8,380**	14,847	20,752
Basic Earnings per share	**0.46**	0.81	1.14
Diluted Earnings per share	**0.46**	0.81	1.13
Dividends per Class A Non-Voting and Class B Common Share	**0.28**	0.28	0.28
Funds flow from continuing operations	**23,960**	34,149	37,143
Cash Flow from operations	**29,235**	19,367	38,876
Working capital	**69,819**	63,089	49,123
Other long-term liabilities	**21,172**	22,672	18,664
Shareholders' equity	**201,446**	198,461	188,038

Liquidity and Capital Resources

AKITA has typically generated sufficient cash flow from operations to fund its normal operating activities as well as capital expenditures. In years in which no new rigs are built under contract and occasionally in years when new rigs are added to the fleet, the Company typically restricts routine capital expenditures to less than 50% of funds flow from operations. In 2009, AKITA's net capital expenditure program of $12,341,000 represented 51% of funds flow from continuing operations and included upgrade costs for two existing pad rigs, in addition to other routine capital expenditures. In 2008, AKITA's net capital expenditure program of $19,567,000 represented 57% of funds flow from continuing operations and included upgrade costs for two existing pad rigs, in addition to other routine capital expenditures.

At December 31, 2009, AKITA had $69,819,000 in working capital including $34,142,000 in cash, compared to $63,089,000 in working capital, including $42,168,000 in cash, for the previous year. In 2009, AKITA generated $23,960,000 in funds from continuing operations. Cash was also generated as proceeds on sales of joint venture rigs and other assets ($506,000) and from exercise of stock options ($64,000). During the same period, cash was used for capital expenditures ($12,341,000), working capital requirements ($14,756,000), payment of dividends ($5,105,000) and foreign currency translation ($354,000).

During 2009 and 2008, the Company had a $10,000,000 operating loan facility at bank prime secured by a general assignment covering substantially all of the Company's assets.

Subsequent to year end, the Company elected to not renew its operating loan as management recommended that the cost to renew could not be justified when taking into account the Company's strong financial condition. As a result of this decision, the Company established more flexible deposit arrangements with its bankers. No loan was outstanding at either December 31, 2009 or December 31, 2008.

The Company had outstanding Normal Course Issuer Bids throughout most of 2009 and 2008 but did not repurchase any shares during 2009. During 2008, the Company repurchased 44,625 Class A Non-Voting Shares at an average price of $10.63 pursuant to its Normal Course Issuer Bid.

In 2009, AKITA renewed its lease for its head office. In 2009, the cost for this lease was $55,000 as a result of tenant inducements. Management anticipates that the 2010 cost will be approximately $355,000. The lease expires on December 31, 2014.

The following table provides a summary of contractual obligations for the Company:

Contractual Obligations (Dollars in Thousands)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Operating Leases	**2,271**	355	958	958	Nil
Purchase obligations	**1,373**	334	696	343	Nil
Pension obligations	**1,131**	Note	Note	Note	Note
Total contractual obligations	**4,775**	689	1,654	1,301	Nil

Note: Timing of pension payments is dependent upon retirement dates for respective employees. The cost from year one to three ranges from $45,000 to $145,000, from year four to five ranges from $30,000 to $122,000 with the balance being due after five years in any event.

Financial Instruments

The Company's financial assets and liabilities include cash, term deposits, accounts receivable, restricted cash, accounts payable and accrued liabilities. During the year, the Company did not hold or issue any derivative financial instruments. Fair values approximate carrying values unless otherwise stated.

Management considers the credit risk associated with accounts receivable to be generally low as substantially all counterparties are well established and financed oil and gas companies. AKITA has detailed credit-granting procedures and in certain situations may require customers to make advance payment prior to provision of services or take other measures to help reduce credit risk. Provisions have been estimated by management and included in the accounts to recognize bad debts.

Off-Balance Sheet Transactions

AKITA has not entered into any arrangements that involve off-balance sheet transactions.

Related Party Transactions

AKITA is affiliated with the ATCO Group of companies and to Spruce Meadows, an equestrian show jumping facility, through its majority shareholder. All related party transactions were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Capital purchases totalled $140,000 and relate to the purchase of a wellsite trailer. Operating purchases totalled $582,000 and included sponsorship and advertising ($325,000), shared employee services ($192,000) and other miscellaneous purchases ($65,000). In 2004 and in 2006, the Company entered into multi-year sponsorship and advertising contracts with Spruce Meadows. At December 31, 2009, the remaining commitment was $1,373,000. Costs incurred related to this contract during 2009 were $325,000 (2008 - $330,000). Costs and related services are consistent with parties dealing at arms length.

Class A and Class B Share Dividends

Per Share	**2009**	2008	Change	% Change
Dividends per share	**0.28**	0.28	0.00	0%

During 2009, AKITA paid dividends totalling $5,105,000 ($0.28 per share) on its Class A Non-Voting Shares and Class B Common Shares, compared to $5,111,000 ($0.28 per share) for 2008. The payment of any dividends is at the discretion of the Board of Directors and depends upon the financial condition of AKITA and other factors. Since the inception of the quarterly dividend program, dividends have been paid in each quarter of every year. The most recent dividend was declared on March 24, 2010 with a dividend rate of $0.07 per share.

Class A Non-Voting and Class B Common Shares

Authorized

An unlimited number of Class A Non-Voting Shares
An unlimited number of Class B Common Shares

Issued (Dollars in thousands)	**Class A Non-Voting**		**Class B Common**		**Total**	
	Number of Shares	Consideration ($000's)	Number of Shares	Consideration ($000's)	Number of Shares	Consideration ($000's)
December 31, 2007	16,612,958	22,003	1,654,284	1,366	18,267,242	23,369
Shares repurchased	(44,625)	(57)	—	—	(44,625)	(57)
December 31, 2008	16,568,333	21,946	1,654,284	1,366	18,222,617	23,312
Shares issued on exercise of stock options	14,000	64	—	—	14,000	64
December 31, 2009	**16,582,333**	**22,010**	**1,654,284**	**1,366**	**18,236,617**	**23,376**
Exerciseable Options at Dec. 31, 2009	145,000					
Unexerciseable Options at Dec. 31, 2009	11,000					

At March 24, 2010, the Company had 16,582,333 Class A Non-Voting Shares and 1,654,284 Class B Common shares outstanding. At that date, there were also 156,000 stock options outstanding, of which 145,000 were exercisable.

Capital Assets

Capital expenditures totalled $12,341,000 in 2009. Over one half of this amount related to the cost to complete the upgrade and retrofit of two rigs that have been converted into pad drilling rigs ($6,785,000). Additional capital expenditures relate to rig equipment for existing rigs ($4,265,000), drill pipe and drill collars ($1,116,000) and other equipment ($175,000). Capital expenditures for 2008 totalled $19,567,000.

During 2009, AKITA did not have any significant disposals of capital assets.

AKITA's net book values for rigs and related equipment were significantly lower than current replacement costs. At year-end, the average net book value of AKITA's drilling rig fleet was $3.7 million per net drilling rig, up from $3.6 million at the end of 2008.

Management reviews its assets on an annual basis and makes a determination based upon its own knowledge of the assets to ensure each net recoverable amount (based on future net funds flows) will be achieved over remaining service lives. No adjustments were made in 2009 or 2008 to carrying values as a result of this review.

Joint Ventures

From time to time, the Company conducts certain operations via joint ventures. Ownership in and results of operations from these joint ventures are recorded under the proportionate consolidation method whereby only AKITA's share of the assets, liabilities, revenue and expenses are recognized. There are no significant terms or conditions in any of the Company's joint ventures that could have a material financial statement impact.

Since 2000, AKITA has constructed seven drilling rigs under joint ventures. As part of the agreements to construct each rig, term contracts lasting four or more years each were entered into with customers. Three of the initial term contracts expired in 2005, one expired in 2006 and one expired in 2009. The remaining two initial term contracts expire in 2010 and 2011.

The following table summarizes AKITA's share of assets, liabilities, revenues and expenses related to the Company's Joint Venture operations:

(Dollars in thousands)	**2009**	2008
Current Assets	**5,997**	2,863
Capital assets, net of depreciation	**56,474**	60,041
Current liabilities	**2,503**	1,563
Revenue	**30,228**	27,786
Expenses	**23,979**	21,516
Net earnings	**6,241**	6,270
Cash flow from operating activities	**10,210**	10,879
Cash flow from financing activities	—	—
Cash flow from investing activities	**(1,376)**	4,752

Accounting Estimates

The preparation of AKITA's financial statements includes significant estimates relating to the useful lives of drilling rigs. Based upon a detailed assessment of the age and quality as well as the type of wells being drilled by each rig, management determines the likely useful remaining life for each rig. Current life estimates for new drilling rigs range from 2,000 operating days to 3,600 operating days. Current life estimates for newly rebuilt drilling rigs are 2,000 operating days. Depreciation rates have been consistent for the Company since its inception in 1993 and have not resulted in any changes in estimates for any previous period and to date.

AKITA's depreciation estimates do not have any effect on the changes to financial condition for the Company, as depreciation is a non-cash item. However, total assets and results of operations, including net income, could be either understated or overstated as a result of depreciation estimates that are either too high or too low. It is unlikely that any overstatement or understatement would manifest itself prior to the adoption of International Financial Reporting Standards ("IFRS") that are set to become effective in 2011. However, if insufficient depreciation is charged over longer periods, a possibility exists for a significant asset write-down, particularly in periods of weak drilling activity whether assets are depreciated in accordance with GAAP or IFRS. Management is sensitive to this possibility and takes care to ensure capital assets are not carried in excess of realizable values.

An additional significant estimate used in the preparation of AKITA's financial statements relates to the defined benefit pension liability for selected employees that was recorded as $1,131,000 at December 31, 2009 (2008 - $3,854,000). AKITA's pension liability estimates do not have any effect on the changes to financial condition for the Company, as the defined benefit pension is an unfunded non-cash item. However, total liabilities and results of operations including net income could be either understated or overstated as a result of pension estimates that are either too high or too low. AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2009, a key assumption relates to the use of a 6.0% discount rate. Except for the impact on the discount rate used in the pension assumptions, recent changes in the global economy and related markets have not otherwise affected the recording of the Company's defined benefit pension liability. This pension is an unfunded liability of the Company.

Commitments

During 2007, AKITA guaranteed bank loans made to joint venture partners totalling $4.5 Million until 2011. AKITA has provided an assignment of monies on deposit totalling $5 Million with respect to these guarantees. AKITA's security from its partners for these guarantees includes interests in specific rig assets. The $5 Million in deposits have been classified as restricted cash on the balance sheet and are in addition to the $34.1 Million in general cash held at December 31, 2009 as well as $18.0 Million in term deposits.

Business Risks and Risk Management

The drilling industry is cyclical and the business of AKITA is directly affected by fluctuations in the level of exploration and development activity carried on by its customers. Drilling activity is seasonal and, in turn, is directly affected by a variety of factors, including weather, world crude oil prices and North American natural gas prices, access to capital markets and government policies. Any prolonged or significant decrease in energy prices or economic activity, or adverse change in government regulation could have a significant negative impact on exploration and development drilling activity in Canada. AKITA's marketing program emphasizes the continuous development of long-term relationships with a core base of customers who maintain ongoing drilling programs during all phases of the economic cycle.

In addition to the management of strategic risks included above, the success of AKITA also depends on other factors, including competition due to increased capacity in the Canadian fleet as well as technological advances in drilling methods and rig designs and the management of operational, reporting and compliance risks.

AKITA manages its risks in these areas by:

- developing an annual strategic business plan and budget to help determine the levels of capital and operating expenditures
- maintaining a low cost structure for the Company, including limited use of financial leverage
- obtaining multi-year rig contracts whenever possible, but particularly when associated with the construction of new rigs
- maintaining an efficient fleet of rigs through a rigorous ongoing maintenance program
- constantly upgrading its rig fleet
- employing well trained, experienced and responsible employees
- ensuring that all employees comply with clearly defined safety standards
- improving the skills of its employees through training programs
- maintaining effective systems of internal control to safeguard assets and ensure timely and accurate reporting of financial results
- maintaining comprehensive insurance policies with respect to its operations
- reducing environmental risk through the implementation of industry-leading standards, policies and procedures

AKITA is subject to federal, provincial, territorial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters and the handling, use, emission and disposal of materials and wastes from operating drilling rigs.

AKITA is committed to preserving and protecting the environment and minimizing the discharge of hazardous materials into the environment in accordance with environmental protection laws and regulations. AKITA verifies compliance with these laws and regulations as well as its own well developed and closely monitored internal procedures through a program of regular environmental audits. Some risk of unintentional breaches of environmental protection laws and potential liability is inherent in particular operations of the industry.

AKITA does not believe that environmental protection laws and regulations affect its operations differently from other responsible companies in the contract drilling industry. Ongoing capital and operating costs of compliance with existing laws and regulations have not been quantified but are not expected to have a material impact on the earnings or competitive position of AKITA.

AKITA maintains comprehensive insurance policies with respect to its operations in amounts that it believes are adequate and in accordance with industry standards. AKITA's liability with respect to its well-site activities is limited by provisions of its agreements with oil and gas well operators that either limit AKITA's liability or provide for indemnification of AKITA against certain risks.

Drilling in Northern Canada and Alaska is an important aspect of AKITA's operations. Special challenges are present in order to operate effectively in these areas. The North represents a small part of the total North American market, is very seasonal and in most cases depends upon frozen conditions and ice.

Local businesses, communities and land corporations play a major role in the infrastructure of the North through aboriginal land claim settlements and access agreements. AKITA manages its risks in this region by adding new rigs only on a multi-year contract basis and by working co-operatively in joint ventures with aboriginal partners with both partners sharing rig ownership.

Accounting Standards

Effective January 1, 2009, the Company adopted the new CICA Handbook Section 3064 "Goodwill and Intangible Assets". This new standard replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. This accounting change has been adopted retrospectively. The adoption of this standard has had no material impact on the Company's consolidated financial statements.

As of January 1, 2011, the Company will be required to adopt the following CICA Handbook sections:

- "Business Combinations", Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard should not have a material impact on the Company's Consolidated Financial Statements.
- "Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard should not have a material impact on the Company's Consolidated Financial Statements.
- "Non-controlling Interests", Section 1602. The standard establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard should not have a material impact on the Company's Consolidated Financial Statements.

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures" to include additional disclosure requirements about the fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements.

This section was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3: Inputs that are not based on observable market data.

The adoption of this standard has not had a material impact on the Company's consolidated financial statements.

Changeover Plan for IFRS

In February 2008, the CICA's Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. The Company will be required to report its results in accordance with IFRS beginning in 2011. The Company has developed a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information.

The following table provides an assessment of the Company's changeover plans as at December 31, 2009:

Key Activity	Milestones / Deadlines	Status
Financial Statement Preparation: • Identify differences in Canadian GAAP/IFRS 1 accounting policies. • Select Company's ongoing IFRS policies. • Select Company's IFRS 1 choices. • Develop financial statement format. • Quantify effects of change in initial IFRS 1 disclosures and 2010 financial statements.	Senior management sign off and audit committee review for all items by the time planning commences for 2011 fiscal year (expected timing: Q3, 2010).	Significant accounting policy choices identified. Analysis of issues continuing.
General Infrastructure: Define and introduce appropriate level of IFRS expertise for each of the following: • Accounting staff. • Senior management. • Board of Directors including Audit Committee	Appropriate level of expertise by the time 2010 conversion exercise commences (expected timing: Q2, 2010).	Leadership team/expert resources identified. Training is ongoing.
IT Infrastructure: Make information technology fully compliant for all of: • Systematic processing changes. • Program upgrades changes. • One-off calculations (IFRS 1). • Gathering data for disclosures. • Scope of consolidation package. • Budget/plan/forecast monitoring process.	Ready for parallel processing of 2010 accounting records and for planning/monitoring process (expected timing: Q3, 2009).	Complete
Business Policy Assessment: Customer and supplier contracts • Evaluate impact on customer and supplier contracts.	Complete review of customer/supplier contracts and revenue/cost recognition models by end of 1st quarter, 2010.	All revenue contracts and supply contracts assembled. Process of evaluating IFRS consequences on contracts underway.
Business Policy Assessment: Capital adequacy • Identify impact on capital adequacy. • Revise capital plan.	Complete capital plan by end of 2nd quarter, 2010.	Process of evaluating issues continuing

Chart continued ...

Key Activity	Milestones / Deadlines	Status
Business Policy Assessment: Compensation arrangements • Identify impact on compensation arrangements. • Make required changes.	Revise arrangements by end of 3rd quarter, 2010.	Process of identifying metrics affected by GAAP/IFRS differences in progress.
Business Policy Assessment: Financial covenants	Completed review at end of 2008.	Complete
Control environment ICFR: • For all accounting policy changes identified, access ICFR design and effectiveness implications. • Implement appropriate changes.	Assuming sign off and review of all accounting policy implications by management and audit committee by 3rd quarter, 2010 (see above), conduct implementation audit during 4th quarter, 2010. Update CEO/CFO certification process by end of 4th quarter, 2010.	Analysis of issues continuing in conjunction with review of accounting policies. Documentation being updated.

Control environment DC&P:
• For all accounting policy changes identified, access DC&P design and effectiveness implications.
• Implement appropriate changes, in particular:
  • Ensure investor communications fully IFRS compliant re: forward looking information.
  • Revise MD&A communications package.
	See ICFR deadlines above.
	Publish impact of conversion on key performance indicators in 3rd quarter, 2010 MD&A.
	Publish material changes in policies and expectations by January, 2011.
	Publish revised 2010 results and MD&A by March 30, 2011.
		MD&A drafts being updated.

The project philosophy is to align with current accounting practices and policies, where possible, to minimize the impact of any changes to the business and records comparability.

Although AKITA has not fully quantified all of the effects of the adoption of the IFRS changeover, it is evident to management that the largest financial impacts will be related to:

- Recording certain expenditures that are currently classified as maintenance in the income statement as property, plant and equipment on the balance sheet. This will have an impact of increasing net earnings and cash flow from operations, however the increase in cash flow from operations will be offset on a dollar-for-dollar basis by capital expenditures (thereby reflecting no overall impact on total cash flow);
- Accounting for joint ventures using the equity method of accounting as compared to the proportionate consolidation method currently employed under GAAP. This change will result in several balance sheet reductions including cash, accounts receivable and accounts payable as well as statement of earnings reductions to revenue, operating and maintenance expense and selling and administrative expense. New accounts will be established on both the balance sheet (investments in joint ventures) and the statement of earnings (share of profits from joint ventures). Overall, there will be no material impact to earnings as a result of this change;
- Depreciation changes related to the allocation of rig assets using a "components" approach. The overall impact of this change may be to either increase or decrease depreciation expense compared to balances recorded under GAAP as the actual results including the impact on net earnings will depend on actual rig utilization in any given period; and

- Recording revenue and corresponding operating and administrative expense amounts for goods or services that are provided by outside suppliers that were charged on a flow-through basis. This change will not have any impact on net earnings for the Company.

Future Outlook and Strategy

The drilling industry is cyclical and certain key factors that have an impact on AKITA's results are beyond management's control. Like other drilling contractors, AKITA is exposed to the effects of fluctuating oil and gas prices and changes in the exploration and development budgets of its customers.

Last year's MD&A comments noted that credit availability for some of AKITA's customers had diminished as a result of the global financial crisis. Although financing costs may have increased in certain instances, the industry has gradually increased its financing capacity over the past 12 months.

Nevertheless, overall, North American demand for crude oil and natural gas has decreased since the onset of the global financial crisis and the ensuing widespread recession. This reduction in demand has resulted in increased inventory levels for these commodities, and generally lower overall prices for both crude oil and natural gas. Lower commodity prices for the two commodities that are responsible for most of the Company's activities have typically correlated to lower overall activity levels, particularly for conventional drilling.

Although the market to drill conventional oil and gas wells is weak, management anticipates that the market for pad rigs will remain strong in 2010 and potentially in future years as well. This market is dominated by demand for rigs used to drill for heavy oil as well as for natural gas in shale formations. The Company currently has eight rigs that target these markets.

As a result of reduced conventional drilling opportunities for crude oil and natural gas, the Company has attempted to market a number of its conventional rigs on projects targeting potash. Management anticipates this opportunity will continue, and expects to deploy three rigs for portions of 2010 towards drilling for potash.

Other prospects continue to be limited at this time.

On October 20, 2009, the Canadian Association of Oilwell Drilling Contractors prepared its industry drilling forecast for 2010 estimating 8,523 wells, compared to 8,360 wells completed in 2009. Management does not anticipate a significant improvement in market conditions until the prices of natural gas and crude oil are sustained at higher levels. AKITA remains well positioned for any turnaround in drilling activity as a result of participating in all of the significant drilling market segments – shallow, medium, deep and pad.

During 2006, the Company entered into a four-year contract through one of its joint ventures with a large corporation for which the Company constructed a drilling rig to be used on the North Slope of Alaska.

During 2007, the Company commenced a long-term contract with a private corporation to provide drilling services with one of its new heavy oil pad rigs. This contract has an initial term of four years.

During 2008, the Company entered into long-term contracts with a large corporation for the provision of two of its existing rigs. Retrofits took place in order to convert these rigs into self-moving pad configurations. Both rigs commenced work under these contracts in 2009.

In December, 2009, the Joint Review Panel for the Mackenzie Gas Project ("JRP") released its final report recommending the development of the Mackenzie Valley Pipeline project, subject to meeting 176 recommendations. The JRP, which was appointed by the federal government, has now submitted its findings to the National Energy Board ("NEB"). The NEB is expected to hold a final round of hearings in April, 2010 and make its own recommendation, which will be subject to federal cabinet approval.

At this time whether or not the Mackenzie Valley Pipeline project will be constructed, and, if applicable, its timing are unknown. In addition to regulatory hurdles, the project also faces economic considerations. AKITA remains well positioned to capitalize on any drilling opportunities that might arise as a result of this pipeline being built since the Company has specialized equipment, experience, expertise and has developed numerous key relationships with customers, partners and suppliers.

Longer term, the Company is well positioned in terms of drilling potential for shallow and deep natural gas, heavy and conventional oil and to take advantage of any increasing activity in Northern Canada and Alaska. Further, AKITA has successfully demonstrated its ability to convert conventional rigs into pad configurations. AKITA's strategy over the past years has been to develop equipment and key relationships to effectively target specific market opportunities.

Since AKITA's growth strategy focuses on the addition of drilling rigs primarily through the attainment of term contracts using limited financial leverage, other routine capital spending is typically restricted to 50% of cash flow from operations in most years.

Disclosure Controls and Internal Controls over Financial Reporting

As of December 31, 2009, the Company's management evaluated the effectiveness of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation is performed under the supervision of, and with the participation of, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer.

Disclosure Controls are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company's management, including the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, including the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, does not expect that the Company's Disclosure Controls will prevent or detect all errors or all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error within the Company, if any, have been detected.

Based on the evaluation of Disclosure Controls, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded that the Company's Disclosure Controls are effective in ensuring that material information relating to the Company is made known to the Company's management on a timely basis by others within those entities, and is included as appropriate in this MD&A as well as other continuous disclosure documents filed by the Company.

As of December 31, 2009, the management of the Company evaluated the effectiveness of internal control over financial reporting ("Internal Control Over Financial Reporting"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation is performed under the supervision of, and with the participation of the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer. The Company's Internal Control Over Financial Reporting is designed to provide

reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal Control Over Financial Reporting, no matter how well designed, has inherent limitations. Therefore, Internal Control Over Financial Reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Based on this evaluation, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded that the Company's Internal Control Over Financial Reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

There were no changes in the Company's Internal Controls Over Financial Reporting that have occurred during the year, including the three months ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's Internal Control Over Financial Reporting.

Forward-Looking Statements

From time to time AKITA makes forward-looking statements. These statements include but are not limited to comments with respect to AKITA's objectives and strategies, financial condition, results of operations, the outlook for industry and risk management discussions.

By their nature, these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that the predictions and other forward-looking statements will not be achieved. Readers of this MD&A are cautioned not to place undue reliance on these statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements may be influenced by the following factors: the level of exploration and development activity carried on by AKITA's customers; world crude oil prices and North American natural gas prices; weather; access to capital markets and government policies. We caution that the foregoing list of factors is not exhaustive and that while relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors as well as other uncertainties and events.

Other Information

Additional information is provided by the Company in its Annual Information Form, Notice of Annual Meeting and Information Circular all dated March 24, 2010. Copies of this information including additional copies of the Annual Report for the year ended December 31, 2009 may be obtained upon request from the Vice President, Finance and Chief Financial Officer of the Company at 900, 311 – 6th Avenue S.W., Calgary, Alberta, T2P 3H2 or at www.sedar.com.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of AKITA Drilling Ltd., Management's Discussion and Analysis and other information relating to AKITA contained in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with accounting policies detailed in the notes to the consolidated financial statements and are in conformity with accounting principles generally accepted in Canada using methods appropriate for the industry in which the Company operates. Where necessary, management made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements including estimates related to transactions and operations that were incomplete at year-end, the useful lives of drilling rigs and other assets, the measurement of the defined benefit pension liability and assumptions around future income tax calculations. Financial information throughout this Annual Report is consistent with the consolidated financial statements.

Management ensures the integrity of the consolidated financial statements by maintaining a system of internal control. This system of internal control is based on the control criteria framework of the Committee of Sponsoring Organizations of the Treadway Commission published in their report titled, *Internal Control – Integrated Framework*. The system is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded; that assets are safeguarded; and that accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with accounting principles generally accepted in Canada. The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports is disclosed, processed and summarized and reported within specified time periods. Internal controls are monitored through self-assessments and are reinforced through a Code of Business Conduct, which sets forth the Company's commitment to conduct business with integrity, and within both the letter and the spirit of the law.

PricewaterhouseCoopers LLP, the Company's independent auditors, have conducted an examination of the consolidated financial statements and have had full access to the Audit Committee. Their report appears on page 27.

The Board of Directors, through its Audit Committee comprised of two independent directors as defined in National Instrument 52-110 – Audit Committees ("NI 52-110"), and one director who is exempt from the independence requirements of NI 52-110, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditors to discuss auditing and financial matters and to gain assurance that management is carrying out its responsibilities.

Karl A. Ruud
President and Chief Executive Officer

Murray Roth

Murray J. Roth
Vice President, Finance and Chief Financial Officer

Auditors' Report

To the Shareholders of AKITA Drilling Ltd.

We have audited the consolidated balance sheets of AKITA Drilling Ltd. as at December 31, 2009 and 2008 and the consolidated statements of earnings and retained earnings, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

March 24, 2010

Consolidated Balance Sheets

December 31 ($000's of Canadian Dollars)		2009	2008
Assets			
Current Assets			
Cash and cash equivalents		$ 34,142	$ 42,168
Term Deposits		18,000	—
Accounts receivable	Note 14	28,523	41,534
Income taxes recoverable		330	—
Other		421	1,123
		81,416	84,825
Restricted cash	Note 17	5,000	5,000
Capital assets	Note 2	147,799	153,044
		$ 234,215	$ 242,869
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		$ 10,123	$ 20,061
Dividends payable		1,277	1,276
Deferred revenue		197	—
Income taxes payable		—	399
		11,597	21,736
Future income taxes	Note 10	20,041	18,818
Pension liability	Note 5	1,131	3,854
Class A and Class B Shareholders' Equity			
Class A and Class B shares	Note 6	23,376	23,312
Contributed surplus		2,271	2,271
Accumulated other comprehensive income	Note 7	(354)	—
Retained earnings		176,153	172,878
		175,799	172,878
		201,446	198,461
		$ 234,215	$ 242,869

Approved by the Board

Director

Shame M. Charlton

Director

Consolidated Statements of Earnings, and Retained Earnings

Year ended December 31 ($000's of Canadian Dollars, except per share amounts)		2009	2008
Revenue		$ 106,263	$ 137,246
Costs and expenses			
Operating and maintenance		67,649	87,123
Depreciation		17,476	16,667
Selling and administrative		9,942	16,336
		95,067	120,126
Revenue less costs and expenses		11,196	17,120
Other income (expense)			
Interest income		524	1,814
Gain on sale of joint venture interests in rigs and other assets		396	673
Gain (loss) on foreign currency translation		(215)	526
		705	3,013
Earnings before income taxes		11,901	20,133
Income taxes			
Current		2,096	3,384
Future		1,425	3,763
	Note 10	3,521	7,147
Earnings from continuing operations		8,380	12,986
Gain on disposal from discontinued operations, net of tax	Note 19	—	1,941
Discontinued operations, net of tax	Note 19	—	(80)
Net earnings		8,380	14,847
Retained earnings, beginning of year		172,878	163,559
Dividends declared		(5,105)	(5,111)
Adjustment on repurchase and cancellation of share capital	Note 6	—	(417)
Retained earnings, end of year		$ 176,153	$ 172,878
Earnings per Class A and Class B share from continuing operations	Note 8		
Basic		$ 0.46	$ 0.71
Diluted		$ 0.46	$ 0.71
Earnings per Class A and Class B share	Note 8		
Basic		$ 0.46	$ 0.81
Diluted		$ 0.46	$ 0.81

Consolidated Statements of Cash Flows

Year ended December 31 ($000's of Canadian Dollars)		2009	2008
Operating activities			
Earnings from continuing operations		$ 8,380	$ 12,986
Non-cash items included in earnings			
Depreciation		17,476	16,667
Future income taxes		1,223	3,763
Expense (recovery) for defined benefit pension plan		(2,723)	245
Stock options charged to expense		—	1,161
Gain on sale of joint venture interests in rigs and other assets		(396)	(673)
Funds flow from continuing operations		23,960	34,149
Cash provided from discontinued operations	Note 19	—	24
Change in non-cash working capital		5,275	(14,806)
		29,235	19,367
Investing activities			
Capital expenditures		(12,341)	(19,567)
Proceeds on sales of joint venture interests in rigs and other assets		506	1,435
Proceeds on sales of discontinued assets	Note 19	—	3,510
Change in non-cash working capital		(20,031)	(158)
		(31,866)	(14,780)
Financing activities			
Dividends paid		(5,105)	(5,111)
Proceeds received on exercise of stock options		64	—
Repurchase of share capital		—	(474)
		(5,041)	(5,585)
Foreign currency translation		(354)	—
Decrease in cash		(8,026)	(998)
Cash position, beginning of year		42,168	43,166
Cash position, end of year		$ 34,142	$ 42,168
Interest paid during the year		$ 66	$ 48
Income taxes paid during the year		$ 2,825	$ 4,377

Consolidated Statements of Comprehensive Income

Year ended December 31 ($000's of Canadian Dollars)		2009	2008
Net earnings		**$ 8,380**	$ 14,847
Other comprehensive income			
Foreign currency translation adjustment	Note 7	**(354)**	—
Comprehensive income		**$ 8,026**	$ 14,847

Notes to Consolidated Financial Statements

December 31, 2009

1. Summary of Significant Accounting Policies

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of AKITA Drilling Ltd. ("AKITA" or the "Company"), its subsidiaries and a proportionate share of its joint venture entities (consisting of drilling rigs).

Revenue Recognition on Contracts

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. On daywork contracts, work in progress is measured based upon the passage of time. On meterage contracts, work in progress is based upon the depth drilled.

The Company's services are generally sold based upon contracts with customers that include fixed or determinable prices based upon daily rates. Customer contract terms do not include provisions for significant post-service delivery obligations. Revenue is recognized when services are rendered and only when collectability is reasonably assured.

Capital Assets and Depreciation

Capital assets are recorded at cost. Costs associated with equipment upgrades that result in increased capabilities or performance enhancements of capital assets are capitalized. Costs incurred to repair or maintain capital assets are charged to expense as incurred.

Drilling rigs are depreciated using the unit of production method based on an initial estimated life of 2,000 or 3,600 operating days per rig depending upon the relative amount of moving required, the age of the equipment when acquired by AKITA as well as other factors that may result in different rates. Drilling rigs are subject to certain minimum annual depreciation.

Replacement drill pipe and other ancillary drilling equipment are depreciated using a straight-line basis at rates varying from 6% to 12.5% per annum. Other assets are depreciated using the declining balance method at rates varying from 4% to 25% per annum except drilling camps, which are depreciated using a straight-line basis over 10 years.

Management assesses the carrying values of capital assets on a periodic basis for indications of impairment. Indications of impairment include lack of profitability and significant changes in technology. When an indication of impairment is present, the Company tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its fair value.

Stock Based Compensation Plans

The Company has two stock-based compensation plans, which are described in Note 9. The Company records compensation expense and contributed surplus, based on the estimated fair value, over the vesting period for stock options granted in 2003 and subsequent years. Any consideration paid by employees on exercise of stock options is credited to share capital along with the related contributed surplus.

Compensation expense for share appreciation rights is accounted for using the intrinsic value method and is accrued monthly based upon the excess of underlying month-end share price over the base value of the rights. The accrued liability is adjusted for the effect of changes in the underlying share price through charges or credits to compensation expense.

Income Taxes

The Company records income taxes using the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using tax rates that are enacted or substantively enacted to be in effect when the differences are expected to reverse. The effect of a change in tax rates is recognized in income in the period that the change becomes substantively enacted.

Employee Future Benefits

The Company accrues for its obligations under its defined benefit pension plan. Costs of these benefits are determined using the projected benefits method prorated on service and reflect management's best estimates of wage and salary increases and age at retirement. Any unrecognized amounts resulting from experience gains or losses or changes in actuarial assumptions in excess of 10% of the actuarial present value of retirement benefits are amortized over the expected remaining service lifetime of each individual on a straight-line basis.

Employer contributions to the defined contribution pension plan and group Registered Retirement Savings Plan ("RRSP") are expensed as incurred.

Per Share Data

Basic earnings per share have been calculated on the basis of the weighted average number of Class A Non-Voting and Class B Common shares outstanding during the year. Diluted earnings per share have been calculated using the treasury stock method. Under the treasury stock method, the dilutive effects of all potentially dilutive instruments are included in the weighted average number of shares. It is also assumed that no cash flow or income is earned on the proceeds received from the dilutive shares issued, but rather, the proceeds are used to buy back shares at the weighted average market price experienced during the year. The weighted average number of shares is then reduced by the number of shares acquired.

Joint Ventures

The Company conducts most of its operations in Canada's Northern Territories, the United States and some of its activities in Canadian provinces through joint ventures. Ownership in, and results of operations from these joint ventures are recorded under the proportionate consolidation method whereby only the Company's share of the assets, liabilities, revenue and expenses are recognized.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash and highly liquid short-term investments with maturities of three months or less.

Financial Instruments and Credit Risk

The Company's financial assets and liabilities include cash and cash equivalents, term deposits, restricted cash, accounts receivable, accounts payable and accrued liabilities. During the year, the Company did not hold or issue any derivative financial instruments. Fair values approximate carrying values unless otherwise stated. The Company has adopted the following classification for financial assets and liabilities:

- Cash and cash equivalents, term deposits and restricted cash are classified as "Held to Maturity"
- Accounts receivable are classified as "Loans and Receivables"
- Accounts payable and accrued liabilities are classified as "Other Financial Liabilities".

Transaction costs related to financial instruments, if incurred, are charged to expense.

Translation of Foreign Currencies

Monetary assets and liabilities of integrated foreign entities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Foreign currency income and expenses of integrated foreign entities are translated at average exchange rates prevailing throughout the year. Unrealized translation gains and losses and all realized gains and losses of integrated foreign entities are included in Other Income.

Assets and liabilities of self-sustaining foreign operations are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date and revenues and expenses are translated at the average monthly rates of exchange during the year. Gains or losses on translation of self-sustaining foreign operations are included in accumulated other comprehensive income in shareholders' equity.

The increased exposure to US dollar denominated contracts for certain joint venture operations located in the US resulted in reclassifying those joint ventures from integrated to self-sustaining foreign operations as at January 1, 2009. The change in classification has been accounted for prospectively.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts for revenue and expenses during the year. Significant estimates used in the preparation of these financial statements include estimates relating to transactions and operations that were incomplete at year-end, the useful lives of drilling rigs and other assets, projections of the drilling rig's undiscounted future cash flows for use in assessing rig asset impairment conditions, the measurement of the defined benefit pension liability and assumptions around future income tax calculations. Actual results could differ materially from these estimates.

2. Capital Assets

(Dollars in thousands)	2009		2008	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Drilling and well service rigs (note 19) and related equipment	**$271,052**	**$128,841**	$ 259,409	$ 112,749
Other	**10,099**	**4,511**	10,480	4,096
	$281,151	**$133,352**	$ 269,889	$ 116,845
Net Book Value	**$147,799**		$ 153,044	

3. Credit Line

During 2009 and 2008, the Company had a $10,000,000 operating loan facility at bank prime secured by a general assignment covering substantially all of the Company's assets.

Subsequent to December 31, 2009, the Company determined that it was cost effective to eliminate its operating loan facility and therefore cancelled it.

4. Long Term Debt

During 2008, the Company cancelled its renewable borrowing facility of up to $20,000,000 bearing interest at bank prime.

5. Pension Liability

The Company has a defined contribution pension plan that covers substantially all of its employees. Under the provisions of the plan, the Company contributes 5% of regular earnings for eligible employees on a current basis. In addition, employees having eligible terms of service are subject to admission into the group RRSP.

The Company has a defined benefit pension plan for selected employees. The defined benefit plan, which provides for pensions based upon the age of the retiree at the date of retirement and, historically, in certain cases, the final average earnings, is non-contributory and unfunded. No current service cost was incurred in either 2009 or 2008.

(Dollars in thousands)	2009	2008
Actuarial present value of defined benefit obligation at January 1	$ 3,604	$ 4,013
Interest cost	214	210
Benefits paid	(113)	(15)
Actuarial gain	(2,342)	(604)
Actuarial present value of defined benefit obligation at December 31	$1,363	$ 3,604

(Dollars in thousands)	2009	2008
Actuarial present value of defined benefit obligation	$ 1,363	3,604
Amounts not yet recognized in financial statements		
Unamortized net gains (losses)	(93)	420
Unamortized transitional obligation	(139)	(170)
Accrued pension liability as at December 31	$ 1,131	$ 3,854

Assumptions

(per cent)	2009	2008
Discount Rate at year-end	6.00	6.50
Rate of compensation growth	N/A	3.0

The Company obtains an annual actuarial valuation subsequent to each year-end from an independent actuary. The most recent evaluation was dated January 22, 2010 and was utilized in measuring the December 31, 2009 year-end balance as well as related activities during the year.

During the year, the Company charged $2,852,000 to selling and administrative expense in respect of its defined contribution pension plan (2008 - $3,569,000) and recovered $2,610,000 from selling and administrative expense in respect of its defined benefit pension plan (2008 charge to selling and administrative expense - $245,000).

6. Class A Non-Voting and Class B Common Shares

Authorized

An unlimited number of Class A Non-Voting shares
An unlimited number of Class B Common shares

Issued

	Class A Non-Voting		Class B Common		Total	
	Number of Shares	Consideration (000's)	Number of Shares	Consideration (000's)	Number of Shares	Consideration (000's)
December 31, 2007	16,612,958	$ 22,003	1,654,284	$ 1,366	18,267,242	$ 23,369
Shares repurchased in 2008	(44,625)	(57)	—	—	(44,625)	(57)
December 31, 2008	16,568,333	$ 21,946	1,654,284	$ 1,366	18,222,617	$ 23,312
Stock options exercised in 2009	14,000	64	—	—	14,000	64
December 31, 2009	**16,582,333**	**$ 22,010**	**1,654,284**	**$ 1,366**	**18,236,617**	**$ 23,376**

Each Class B Common share may be converted into one Class A Non-Voting share at the shareholder's option. If a takeover bid is made for the Class B Common shares, holders of Class A Non-Voting shares are entitled, in certain circumstances, for the duration of the bid, to exchange each Class A Non-Voting share for one Class B Common share for the purpose of depositing the resulting Class B Common shares pursuant to the terms of the takeover bid. The two classes of shares rank equally in all other respects.

For substantially all of 2008 and 2009, the Company had outstanding normal course issuer bids for the purchase of up to 3% of the outstanding Class A Non-Voting shares. In 2008, 44,625 shares were repurchased and cancelled under normal course issuer bids at a cost of $474,000 of which $57,000 was charged to share capital and $417,000 to retained earnings. No shares were repurchased in 2009 under normal course issuer bids. The most recent offer will expire on October 7, 2010.

7. Accumulated Other Comprehensive Loss

Other comprehensive income (loss) of the Company is comprised of the foreign currency translation adjustment relating to self-sustaining foreign operations. Changes in accumulated other comprehensive income (loss) are summarized below:

(Dollars in thousands)	2009	2008
Accumulated comprehensive income, beginning of year	$ —	$ —
Other comprehensive loss before income taxes	(556)	—
Future income taxes recovered	202	—
Other comprehensive loss for the year	(354)	—
Accumulated comprehensive loss, end of the year	$ (354)	$ —

8. Earnings per Share

	2009	2008
Net earnings (Dollars in thousands)	$ 8,380	$ 14,847
Weighted average outstanding shares	18,230,913	18,255,099
Incremental shares	16,974	35,128
Basic earnings per share from continuing operations ($)	$ 0.46	$ 0.71
Diluted earnings per share from continuing operations ($)	$ 0.46	$ 0.71
Basic earnings per share ($)	$ 0.46	$ 0.81
Diluted earnings per share ($)	$ 0.46	$ 0.81

9. Stock Based Compensation Plans

At December 31, 2009, the Company had two stock-based compensation plans, which are described below.

Subject to the approval of the Company's Board of Directors, the Company's Corporate Governance, Nomination, Compensation and Succession Committee, may designate directors, officers, employees and other persons providing services to the Company to be offered options to purchase Class A Non-Voting shares. A maximum of 1,700,000 Class A Non-Voting shares have been reserved for issuance pursuant

to outstanding options. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the date of grant.

In addition to stock options, share appreciation rights (SARs) may be granted to directors, officers and key employees of the Company. The vesting provisions (which range from three to eight years) and exercise period (which cannot exceed 10 years) are determined at the time of grant. The holder is entitled on exercise to receive a cash payment from the Company equal to any increase in the market price of the Class A Non-Voting shares over the base value of the SAR exercised. The base value is equal to the closing price of the Class A Non-Voting shares on the day before the grant.

The Company did not have any outstanding SARs during either 2009 or 2008. A summary of the status of the Company's stock based compensation plans as of December 31, 2009 and 2008, and changes during the years ended on those dates is presented below:

	2009		2008	
	Options	Weighted Average Exercise Price ($)	Options	Weighted Average Exercise Price ($)
Options outstanding at beginning of year	**182,000**	**8.33**	411,000	16.19
Options exercised	**(14,000)**	**4.60**	—	—
Options cancelled	—	—	(229,000)	22.44
Options expired	**(12,000)**	**11.72**	—	—
Options outstanding at end of year	**156,000**	**8.41**	182,000	8.33
Options exercisable at year-end	**145,000**	**8.29**	165,500	8.17

The following table summarizes information about stock based compensation plans at December 31, 2009:

Nature of Compensation	Exercise Price ($)	Number Outstanding	Remaining Contractual Life (years)	Number Exercisable
Options	5.400	6,000	0.3	6,000
Options	5.400	46,000	1.0	46,000
Options	8.405	2,000	2.6	2,000
Options	9.940	6,000	0.3	6,000
Options	9.940	16,000	0.7	16,000
Options	9.940	80,000	3.1	69,000
Weighted Average Contractual Life			1.7	

On June 2, 2008, the Company cancelled 229,000 stock options having exercise prices of $22.25 to $22.48 per option. This resulted in a one-time non cash increase of $1,000,000 ($840,000 net of future income taxes) in selling and administrative expense and a corresponding increase in contributed surplus. As required by Canadian Generally Accepted Accounting Principles (GAAP), this is an accelerated expense of $1,000,000 for the remaining unrecognized value of the cancelled stock options and is reflected in the year in which it occurred rather than over the remaining term of the options.

During 2009, the Company did not record any compensation expense or changes to contributed surplus related to stock options. During 2008, the Company recorded compensation expense and a corresponding increase to contributed surplus of $1,161,000 for options granted since 2003. The 2008 expense included the adjustment described in the preceding paragraph. Compensation expense was determined using the Black-Scholes Model.

10. Income Taxes

The income tax provision differs from that which would be computed using the statutory rate. A reconciliation of the differences is as follows:

(Dollars in thousands)	2009	2008
Earnings before income taxes	$ 11,901	$ 20,133
Expected income tax at statutory rate of 29.69% (2008 - 30.38%)	3,533	6,116
Add (Deduct)		
Increase (reduction) in future income tax rates	(970)	178
Permanent	69	420
Jurisdictional rate difference	1,119	420
Large corporations tax and other	(230)	13
Income tax expense	$ 3,521	$ 7,147

The net future tax liability is comprised of the tax effect of the following temporary differences:

(Dollars in thousands)	2009	2008
Capital Assets	$ 75,045	$ 71,089
Employee Pension Benefits	(1,131)	(3,870)
Other	(181)	(441)
	73,733	66,778
Expected future income tax rate	27.18%	28.18%
Future income taxes at expected tax rate	$ 20,041	$ 18,818

11. Related Parties

The Company is related to the ATCO Group of companies and to Spruce Meadows through its majority shareholder. The accompanying table summarizes transactions and year-end balances with those affiliates. These transactions were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Each was considered to be at fair market value:

(Dollars in thousands)	2009	2008
Revenue (computer services)	$ 30	$ 30
Purchases		
Capital (wellsite trailers, other)	140	320
Operating (sponsorship and advertising (Note 17), shared employee services, other)	582	650
Year end accounts receivable	3	3
Year end accounts payable	16	161

12. Recent Accounting Pronouncements

In February 2008, the CICA's Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. The Company will be required to report its results in accordance with IFRS beginning in 2011. The Company has developed a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information. Although AKITA has not fully quantified all of the effects of the adoption of the IFRS changeover, the largest financial impacts will be related to:

- Recording certain expenditures that are currently classified as maintenance in the income statement as property, plant and equipment on the balance sheet. This will have an impact of increasing net earnings and cash flow from operations, however the increase in cash flow from operations will be offset on a dollar-for-dollar basis by capital expenditures (thereby reflecting no overall impact on cash flow);
- Accounting for joint ventures using the equity method of accounting as compared to the proportionate consolidation method currently employed under GAAP. This change will result in several balance sheet reductions including cash, accounts receivable and accounts payable as well as statement of earnings reductions to revenue, operating and maintenance expense and selling and administrative expense. New accounts will be established on both the balance sheet (investments in joint ventures) and the statement of earnings (share of profits from joint ventures). Overall, there will be no impact to net earnings as a result of this change;
- Depreciation changes related to the allocation of rig assets using a "components" approach. The overall impact of this change may be to either increase or decrease depreciation expense compared to balances recorded under GAAP as the actual results including the impact on net earnings will depend on actual rig utilization in any given period; and
- Recording revenue and corresponding operating and administrative expense amounts for goods or services that are provided by outside suppliers that are currently charged on a flow-through basis. This change will not have any impact on net earnings for the Company.

As of January 1, 2011, the Company will be required to adopt the following CICA Handbook sections:

- "Business Combinations", Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.
- "Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.
- "Non-controlling Interests", Section 1602. The standard establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to

be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures" to include additional disclosure requirements about the fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements.

This section was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3: Inputs that are not based on observable market data.

The adoption of this standard has not had a material impact on the Company's consolidated financial statements.

Effective January 1, 2009, the Company adopted CICA Handbook Section 3064 "Goodwill and Intangible Assets". The new standard replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard has had no material impact on the Company's consolidated financial statements.

13. Capital Disclosures

The Company has determined capital to include long-term debt ($Nil at December 31, 2008 and December 31, 2009) and share capital. The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to augment existing resources in order to meet growth requirements.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase or issue new shares, sell assets or take on long-term debt.

14. Financial Instruments

Financial Instrument Risk Exposure and Management

The Company is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, foreign currency risk and potentially, liquidity risk. In addition, the Company is indirectly exposed to interest rate risk since the Company is typically non-borrowing and is directly exposed to fluctuations in interest rates through its investment in bank guaranteed highly liquid investments. The Company is also indirectly exposed to commodity risk relating to commodity prices due to the industry in which it works.

Credit Risk

The credit risk associated with accounts receivable is generally considered to be low since substantially all counterparties are well established and financed oil and gas companies. The Company has detailed credit granting procedures and in certain circumstances may require customers to make advance payment prior to the provision of services or take other measures to help reduce credit risk. Provisions have been estimated by management and included in the accounts to recognize potential bad debts.

The table of accounts receivable below shows no significant credit risk exposure in the balances outstanding at December 31:

(Dollars in thousands)	2009	2008
Within 30 days	$ 22,987	$ 31,700
31 to 60 days	4,530	5,316
61 to 90 days	971	3,241
Over 90 days	148	1,348
Allowance for doubtful accounts	(113)	(71)
Accounts receivable	$ 28,523	$ 41,534

Foreign Currency Risk

The Company is exposed to changes in foreign exchange rates as revenues, capital expenditures or financial instruments may fluctuate due to changing rates. At December 31, 2009 and December 31, 2008, AKITA's exposure was limited substantially to its operations in the United States, which constituted 13% of its total revenue (2008 – 8%).

Liquidity Risk

The Company is exposed to liquidity risk through its working capital balance. At December 31, 2009 and December 31, 2008, this risk was limited due to having cash balances significantly in excess of total current liabilities.

15. Joint Ventures

The following table summarizes the Company's share of assets, liabilities, revenues and expenses related to its joint venture operations:

(Dollars in thousands)	2009	2008
Current assets	$ 5,997	$ 2,863
Capital assets, net of accumulated depreciation	56,474	60,041
Current liabilities	2,503	1,563
Revenue	30,228	27,786
Expenses	23,979	21,516
Net earnings	6,241	6,270
Cash flow from operating activities	10,210	10,879
Cash flow from financing activities	—	—
Cash flow from investing activities	(1,376)	4,752

10 Year Financial Review

(Dollars in thousands, except per share)

	Annual Ranking	**2009**	2008	2007
Summary of Operations				
Revenue	8	**$ 106,263**	$ 137, 246	$ 141,962
Earnings before income taxes	10	**$ 11,901**	$ 20,133	$ 28,667
Income taxes	10	**$ 3,521**	$ 7,147	$ 7,525
Net earnings	10	**$ 8,380**	$ 14,847	$ 20,752
As a percentage of average shareholders' equity	10	**4.2%**	7.7%	11.5%
Earnings per Class A and Class B shares	10	**$ 0.46**	$ 0.81	$ 1.14
Funds flow from continuing operations	9	**$ 23,960**	$ 34,149	$ 37,143
As a percentage of average shareholders' equity	10	**12.0%**	17.6%	20.6%
Financial position at year end				
Working capital	1	**$ 69,819**	$ 63,089	$ 49,123
Current ratio	1	**7.02:1**	3.90:1	3.92:1
Total assets	2	**$ 234,215**	$ 242,869	$ 223,522
Shareholders' equity	1	**$ 201,446**	$ 198,461	$ 188,038
per share	1	**$ 11.05**	$ 10.89	$ 10.29
Other				
Capital expenditures (Net)	9	**$ 11,835**	$ 14,622	$ 33,505
Depreciation	1	**$ 17,476**	$ 16,667	$ 15,164

16. Significant Customers

During 2009, three customers (2008 – one customer) each provided more than 10% of the Company's total revenue. In management's assessment, the future viability of the Company is not dependent upon these major customers.

17. Commitments

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2009, the Company had four rigs with multi-year contracts. Of these contracts, one is anticipated to expire in 2010, one in 2011 and the remaining two contracts in 2013.

In 2004 and 2006, the Company entered into multi-year sponsorship and advertising contracts with Spruce Meadows. At December 31, 2009, the remaining commitment was $1,373,000. Costs related to this contract during 2009 were $325,000 (2008 - $330,000) (Note 11). These contracts have been extended until 2012 and 2014.

The Company leases its office space at an annual cost of approximately $355,000 - $479,000 per year. This lease expires on December 31, 2014.

During 2007, the Company guaranteed loans made to joint venture partners totalling $4.5 Million for a period of four years. The Company has provided an assignment of monies on deposit totalling $5 Million with respect to these loans. This $5 Million balance has been classified as "Restricted Cash" on the consolidated balance sheet. The Company's security from its partners for these guarantees includes interests in specific rig assets.

18. Segmented Information

The Company operates in one business segment that provides contract drilling services for its customers.

(Dollars in thousands)	Domestic		United States		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
Revenue	**$ 92,002**	$ 125,724	**$ 14,261**	$ 11,522	**$ 106,263**	$ 137,246
Capital Assets at year-end	**$ 136,433**	$ 134,282	**$ 11,366**	$ 18,762	**$ 147,799**	$ 153,044

19. Discontinued Operations

The Company had no discontinued operations in 2009. In May, 2008, the Company sold one drilling rig (0.55 net to AKITA), which represented substantially all of the assets for the Akita Sahcho and Akita Kaska joint ventures. In June, 2008, the Company sold its well servicing business which included three well servicing rigs (1.5 net to AKITA), which represented substantially all of the assets for Western Oilfield Servicing Joint Venture. Proceeds from these sales totalled $8,150,000 ($3,510,000 net to AKITA) and resulted in an after tax gain of $1,941,000 to the Company.

(Dollars in Thousands)	2009	2008
Revenue	$ —	$ 795
Costs and Expenses		
Operating and maintenance	—	554
Depreciation	—	104
Selling and administrative	—	247
Loss from discontinued operations before income taxes	—	(110)
Recovery of income taxes	—	(30)
Loss from discontinued operations	$ —	$ (80)

The following table provides a reconciliation of the cash flow impacts from discontinued operations:

(Dollars in Thousands)	2009	2008
Loss from discontinued operations	$ —	$ (80)
Non-cash item included in earnings from discontinued operations		
Depreciation	—	104
Funds flow from discontinued operations	—	$ 24
Proceeds on sale of discontinued assets before income taxes	—	$ 4,375
Recovery for income taxes	—	(865)
Proceeds on sale of discontinued assets	$ —	$ 3,510

2006	2005	2004	2003	2002	2001	2000
$ 174,543	$ 162,110	$ 135,747	$ 124,078	$ 102,895	$ 110,844	$ 88,441
$ 48,129	$ 44,770	$ 32,121	$ 28,678	$ 23,473	$ 30,395	$ 19,792
$ 14,374	$ 15,506	$ 11,246	$ 9,856	$ 9,128	$ 12,506	$ 8,635
$ 33,755	$ 29,264	$ 20,875	$ 18,822	$ 14,345	$ 17,889	$ 11,157
21.0%	21.4%	18.3%	19.4%	16.7%	25.8%	18.0%
$ 1.83	$ 1.57	$ 1.15	$ 1.04	$ 0.79	$ 0.99	$ 0.62
$ 47,199	$ 42,421	$ 33,947	$ 30,426	$ 27,459	$ 26,959	$ 17,110
29.4%	31.0%	29.7%	31.3%	32.0%	38.9%	27.6%

$ 56,681	$ 59,499	$ 40,414	$ 24,319	$ 26,551	$ 19,823	$ 17,227
2.77:1	2.74:1	2.83:1	1.82:1	2.52:1	1.77:1	2.07:1
$ 222,237	$ 199,852	$ 162,957	$ 150,901	$ 133,901	$ 145,859	$ 85,529
$ 172,873	$ 148,366	$ 124,926	$ 103,590	$ 90,947	$ 80,472	$ 65,624
$ 9.43	$ 8.00	$ 6.70	$ 5.74	$ 4.97	$ 4.42	$ 3.62

$ 40,655	$ 18,386	$ 15,308	$ 16,122	($ 2,061)	$ 54,319	$ 26,548
$ 14,211	$ 12,691	$ 11,263	$ 9,432	$ 8,819	$ 7,763	$ 6,551

Corporate Information

Directors

Loraine M. Charlton
Corporate Director
Calgary, Alberta

Arthur C. Eastly
Corporate Director
Calgary, Alberta

Linda A. Heathcott
President, Spruce Meadows,
President, Team Spruce Meadows Inc.
Chairman of the Board
of the Company
Calgary, Alberta

Dale R. Richardson
Vice President,
Sentgraf Enterprises Ltd.
Calgary, Alberta

Nancy C. Southern
Deputy Chair, President and
Chief Executive Officer, ATCO Ltd.
and Canadian Utilities Limited
Calgary, Alberta

Ronald D. Southern,
C.C., C.B.E., B.Sc., LL.D.
Chairman, ATCO Ltd. and
Canadian Utilities Limited,
Deputy Chairman of the Board of the
Company
Calgary, Alberta

C. Perry Spitznagel, Q.C.
Vice Chairman and Managing Partner
(Calgary), Bennett Jones LLP
Calgary, Alberta

Charles W. Wilson
Corporate Director
Evergreen, Colorado

Officers

Fred O. Hensel
Vice President,
Marketing

Craig W. Kushner
Corporate Secretary and
Human Resources Administrator

John M. Pahl
Vice President,
Joint Ventures and
Business Development

Murray J. Roth
Vice President, Finance and
Chief Financial Officer

Karl A. Ruud
President and Chief Executive Officer

Head Office

AKITA Drilling Ltd.,
900, 311 – 6th Avenue S.W.,
Calgary, Alberta T2P 3H2
(403) 292-7979

Banker

Alberta Treasury Branches
Calgary, Alberta

Counsel

Bennett Jones LLP
Calgary, Alberta

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Registrar and Transfer Agent

CIBC Mellon Trust Company
Calgary, Alberta and Toronto, Ontario
1-800-387-0825

Share Symbol / TSX

Class A Non-Voting (AKT.A)
Class B Common (AKT.B)

Website

www.akita-drilling.com

HEAD OFFICE
AKITA Drilling Ltd.,
900, 311 – 6th Avenue S.W.,
Calgary, Alberta T2P 3H2
www.akita-drilling.com